

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

|  |                               |  |                  |
|--|-------------------------------|--|------------------|
| Local Unit of Government Type<br><input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other |                               | Local Unit Name<br>Township of Port Sheldon                | County<br>Ottawa |
| Fiscal Year End<br>March 31, 2007  | Opinion Date<br>July 30, 2007 | Date Audit Report Submitted to State<br>September 24, 2007 |                  |

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - ☒ ☐ The local unit has adopted a budget for all required funds.
  - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
  - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
  - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  - ☒ ☐ The local unit is free of repeated comments from previous years.
  - ☒ ☐ The audit opinion is UNQUALIFIED.
  - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
  - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

|  |                                     |  |                              |
|--|-------------------------------------|--|------------------------------|
| <b>We have enclosed the following:</b>   | Enclosed                            | Not Required (enter a brief justification) |                              |
| Financial Statements   | <input checked="" type="checkbox"/> |  |                              |
| The letter of Comments and Recommendations   | <input type="checkbox"/>            | Not considered necessary                   |                              |
| Other (Describe)   | <input checked="" type="checkbox"/> | SAS 112 communication                      |                              |
| Certified Public Accountant (Firm Name)<br>Siegfried Crandall P.C.   |                                     | Telephone Number<br>(269) 381-4970         |                              |
| Street Address<br>246 E Kilgore  |                                     | City<br>Kalamazoo                          | State<br>MI                  |
| Zip<br>49002   |                                     |  |                              |
| Authorizing CPA Signature<br> |                                     | Printed Name<br>Daniel L. Veldhuizen       | License Number<br>1101020724 |

*Township of Port Sheldon*  
*Ottawa County, Michigan*  
**FINANCIAL STATEMENTS AND**  
**INDEPENDENT AUDITORS' REPORT**  
*Year ended March 31, 2007*

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

***Township of Port Sheldon***  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Our discussion and analysis of the Township of Port Sheldon, Michigan's (the Township), financial performance provides a narrative overview of the Township's financial activities for the fiscal year ended March 31, 2007. Please read it in conjunction with the Township's financial statements.

**FINANCIAL HIGHLIGHTS**

- The Township's total net assets increased by \$251,501 (6 percent) as a result of this year's activities. Net assets of the governmental activities increased by \$255,294, while the business-type activities net assets decreased by \$3,793.
- Of the \$4,275,172 total net assets reported, \$565,524 is restricted for various purposes and \$1,417,575 (33 percent) is unrestricted, or available to be used at the Board's discretion.
- The General Fund's unreserved, undesignated fund balance at the end of the fiscal year was \$1,393,612, which represents 192 percent of the actual total General Fund expenditures for the current fiscal year.

**Overview of the financial statements**

The Township's annual financial report is comprised of three parts: the management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Township:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Township, reporting the Township's operations in more detail than the government-wide financial statements.
  - Governmental fund statements tell how general government services, like public safety, were financed in the short-term as well as what remains for future spending.
  - Proprietary fund statements offer short- and long-term financial information about the activities the government operates like a business, such as the water system.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

A comparative analysis of the basic financial statements for 2007 and 2006 is also presented.

**Township of Port Sheldon**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

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**Government-wide financial statements**

The government-wide financial statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Township's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide statements report the Township's net assets and how they have changed. Net assets (the difference between the Township's assets and liabilities) are one way to measure the Township's financial health or position.

- Over time, increases or decreases in the Township's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Township, you need to consider additional nonfinancial factors such as changes in the Township's property tax base and the condition of the Township's capital assets.

The government-wide financial statements are divided into three categories:

- *Governmental activities* - Most of the Township's basic services are included here, such as fire protection and general government. Property taxes and state shared revenue finance most of these activities.
- *Business-type activities* - The Township charges fees to customers to help it cover the costs of certain services it provides. The Township's water system is reported here.
- *Component unit* - The Township includes one other entity in its report - the Economic Development Corporation. Although legally separate, this "component unit" is important because the Township is financially accountable for it.

**Fund financial statements**

The fund financial statements provide more detailed information about the Township's most significant funds, not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond agreements.
- The Township Board establishes other funds to show that it is properly using certain taxes and other revenues (like the public safety millage).

The Township has three kinds of funds:

- *Governmental funds*. Most of the Township's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash, flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship between them.

**Township of Port Sheldon**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**Fund financial statements (Continued)**

- *Proprietary funds.* Services for which the Township charges customers a fee are generally reported in proprietary funds. Proprietary funds statements, like the government-wide statements, provide both long-and short-term financial information. In fact, the Township's enterprise fund (one type of proprietary fund) is the same as its business-type activity, but provides more detail and additional information, such as cash flows.
- *Fiduciary funds.* Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE**

**Net assets.** Total net assets at the end of the fiscal year were \$3,578,518, an increase of 6 percent compared to the prior year. Of this total, \$2,292,073 is invested in capital assets and \$385,798 is restricted for various purposes. Consequently, unrestricted net assets were \$900,647, or 25 percent of the total.

Condensed financial information  
Net Assets

|  | <i>Governmental<br/>activities</i> |                     | <i>Business-type<br/>activities</i> |                  | <i>Totals</i>       |                     |
|--|------------------------------------|---------------------|-------------------------------------|------------------|---------------------|---------------------|
|  | <u>2007</u>                        | <u>2006</u>         | <u>2007</u>                         | <u>2006</u>      | <u>2007</u>         | <u>2006</u>         |
| Current and other assets                           | \$ 2,079,704                       | \$ 1,840,422        | \$ 23,963                           | \$ 27,756        | \$ 2,103,667        | \$ 1,868,178        |
| Capital assets                                     | <u>3,479,073</u>                   | <u>3,509,847</u>    | -                                   | -                | <u>3,479,073</u>    | <u>3,509,847</u>    |
| Total assets                                       | <u>5,558,777</u>                   | <u>5,350,269</u>    | <u>23,963</u>                       | <u>27,756</u>    | <u>5,582,740</u>    | <u>5,378,025</u>    |
| Long-term debt outstanding                         | 1,187,000                          | 1,250,000           | -                                   | -                | 1,187,000           | 1,250,000           |
| Other liabilities                                  | <u>120,568</u>                     | <u>104,354</u>      | -                                   | -                | <u>120,568</u>      | <u>104,354</u>      |
| Total liabilities                                  | <u>1,307,568</u>                   | <u>1,354,354</u>    | -                                   | -                | <u>1,307,568</u>    | <u>1,354,354</u>    |
| Net assets:  |                                    |                     |                                     |                  |                     |                     |
| Invested in capital assets,<br>net of related debt | 2,292,073                          | 2,259,847           | -                                   | -                | 2,292,073           | 2,259,847           |
| Restricted   | 565,524                            | 610,151             | -                                   | -                | 565,524             | 610,151             |
| Unrestricted                                       | <u>1,393,612</u>                   | <u>1,125,917</u>    | <u>23,963</u>                       | <u>27,756</u>    | <u>1,417,575</u>    | <u>1,153,673</u>    |
| Total net assets                                   | <u>\$ 4,251,209</u>                | <u>\$ 3,995,915</u> | <u>\$ 23,963</u>                    | <u>\$ 27,756</u> | <u>\$ 4,275,172</u> | <u>\$ 4,023,671</u> |

**Township of Port Sheldon****MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**Changes in net assets.** The Township's total revenues for 2007 were \$1,265,382. More than 54 percent of the Township's revenues come from property taxes while state shared revenue accounts for 24 percent of the revenues. Charges for services account for 11 percent of the Township's revenues.

The total cost of the Township's programs for 2007, covering a wide range of services, totaled \$1,013,881. Nearly 39 percent of the Township's costs relate to general government expenses while public safety (fire protection and building inspections) represents 23 percent of all costs.

## Condensed financial information

## Changes in net assets

|                                       | <i>Governmental<br/>activities</i> |                   | <i>Business-type<br/>activities</i> |                 | <i>Totals</i>     |                   |
|---------------------------------------|------------------------------------|-------------------|-------------------------------------|-----------------|-------------------|-------------------|
|                                       | <u>2007</u>                        | <u>2006</u>       | <u>2007</u>                         | <u>2006</u>     | <u>2007</u>       | <u>2006</u>       |
| Program revenues:                     |                                    |                   |                                     |                 |                   |                   |
| Charges for services                  | \$ 116,764                         | \$ 118,335        | \$ 15,442                           | \$ 13,221       | \$ 132,206        | \$ 131,556        |
| Operating grants and contributions    | 6,349                              | 3,663             | -                                   | -               | 6,349             | 3,663             |
| General revenues:                     |                                    |                   |                                     |                 |                   |                   |
| Property taxes                        | 700,387                            | 662,781           | -                                   | -               | 700,387           | 662,781           |
| State shared revenue                  | 306,332                            | 307,782           | -                                   | -               | 306,332           | 307,782           |
| Interest income                       | 94,897                             | 61,797            | 541                                 | 364             | 95,438            | 62,161            |
| Franchise fees                        | 24,670                             | 21,012            | -                                   | -               | 24,670            | 21,012            |
| Other                                 | -                                  | 8,475             | -                                   | -               | -                 | 8,475             |
| Total revenues                        | <u>1,249,399</u>                   | <u>1,183,845</u>  | <u>15,983</u>                       | <u>13,585</u>   | <u>1,265,382</u>  | <u>1,197,430</u>  |
| Expenses:                             |                                    |                   |                                     |                 |                   |                   |
| Legislative                           | 4,198                              | 4,399             | -                                   | -               | 4,198             | 4,399             |
| General government                    | 398,014                            | 375,110           | -                                   | -               | 398,014           | 375,110           |
| Public safety                         | 237,769                            | 239,832           | -                                   | -               | 237,769           | 239,832           |
| Public works                          | 145,390                            | 158,594           | -                                   | -               | 145,390           | 158,594           |
| Culture and recreation                | 61,370                             | 81,353            | -                                   | -               | 61,370            | 81,353            |
| Community and economic<br>development | 68,403                             | 71,463            | -                                   | -               | 68,403            | 71,463            |
| Interest on long-term debt            | 78,961                             | 56,320            | -                                   | -               | 78,961            | 56,320            |
| Water                                 | -                                  | -                 | 19,776                              | 8,760           | 19,776            | 8,760             |
| Total expenses                        | <u>994,105</u>                     | <u>987,071</u>    | <u>19,776</u>                       | <u>8,760</u>    | <u>1,013,881</u>  | <u>995,831</u>    |
| Increase (decrease) in net assets     | <u>\$ 255,294</u>                  | <u>\$ 196,774</u> | <u>\$ (3,793)</u>                   | <u>\$ 4,825</u> | <u>\$ 251,501</u> | <u>\$ 201,599</u> |



**Township of Port Sheldon**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

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**Governmental activities**

Governmental activities increased the Township's net assets by \$255,294 in 2007 compared to a \$196,774 increase in 2006. Net assets increased because general revenues, while stagnant, exceeded expenditures in each year.

The following table shows the costs of the Township's three largest programs, as well as the net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost shows the burden that was placed on the Township's taxpayers by each of these functions.

The total cost of all governmental activities was \$994,105. However, the amount that our taxpayers paid for these activities through general revenues was \$870,992. Some of the cost was paid by:

- Those who directly benefited from the programs (\$116,764), and
- Other governments that subsidized certain programs with grants and contributions (\$6,349).

The Township paid for the \$870,992 "public benefit" portion with \$1,092,413 in general revenues including property taxes and other revenues, such as state shared revenue and interest income.

|                    | <i><u>Total cost<br/>of services</u></i> | <i><u>Net cost<br/>of services</u></i> |
|--------------------|--|--|
| General government | \$ 398,014                               | \$ 373,006                             |
| Public safety      | 237,769                                  | 169,491                                |
| Public works       | 145,390                                  | 141,469                                |
| Other              | <u>212,932</u>                           | <u>187,026</u>                         |
| <b>Totals</b>      | <b><u>\$ 994,105</u></b>                 | <b><u>\$ 870,992</u></b>               |

**Business-type activities**

Business-type activities decreased the Township's net assets by \$3,793 in 2007 compared to a \$4,825 increase in 2006. Net assets decreased in the current year due in part to a well maintenance program. This maintenance is necessary in order to maintain safe drinking water in the future.

**Township of Port Sheldon**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

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**Governmental funds**

As of March 31, 2007, the Township's governmental funds reported combined ending fund balances of \$1,706,014, an increase of \$318,864 compared to last year's balances.

The General Fund is the chief operating fund of the Township. At the end of the fiscal year, unreserved fund balance was \$1,393,612, which represents 192 percent of the actual total General Fund expenditures for the current fiscal year. The fund balance of the General Fund represents 87 percent of the combined ending fund balances of the governmental funds.

The General Fund experienced an increase of \$267,695 in fund balance because revenues exceeded expenditures in the current year. Construction of a nonmotorized pathway is being planned for next year. Preliminary estimates for this project exceed \$400,000. Funds have been set aside for this pathway project including the General Fund increase experienced this year.

In addition, these other changes in fund balances should be noted:

- The fund balance of the Fire Fund increased by \$28,542. Property taxes levied covered expenditures of the current year. The fund incurred minimal capital outlay expenditures in the current year.
- The fund balance of the Sewer District #1 Fund increased by \$22,627 because special assessment collections exceeded debt service costs in the current year.

**General Fund budgetary highlights**

The Township did not amend the General Fund budget.

Revenues were \$47,482 more than budgeted while expenditures and transfers to other funds were \$823,549 less than the amounts appropriated. These conditions resulted in an \$871,031 positive budget variance and a \$267,695 increase in fund balance compared to a budgeted \$603,336 decrease.

The single most significant reason for the large positive budget variance is explained by the delay in the pathways construction project. Pathways costs were \$431,345 less than anticipated. Secondly, capital outlay expenditures were \$145,687 less than anticipated. There were no negative variances in any of the General Fund functional expenditure classifications.

**Capital assets and debt administration**

*Capital assets*

The Township's investment in capital assets for its governmental and business-type activities as of March 31, 2007, amounts to \$3,479,073 (net of accumulated depreciation). This investment includes a broad range of assets including land, various infrastructure items, buildings, and equipment. The net decrease in the Township's net investment in capital assets for the current fiscal year was \$30,774 or less than one percent.

**Township of Port Sheldon**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

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*Capital assets (continued)*

|                            | <i><u>Governmental<br/>activities</u></i> |
|----------------------------|---|
| Land                       | \$ 236,443                                |
| Buildings and improvements | 1,112,723                                 |
| Equipment                  | 173,583                                   |
| Vehicles                   | 409,996                                   |
| Infrastructure             | <u>1,546,328</u>                          |
| <b>Totals</b>              | <b><u>\$ 3,479,073</u></b>                |

The major capital asset event during the current fiscal year involved the development of infrastructure (shared road costs) with costs totaling \$90,411.

More detailed information about the Township's capital assets is presented in Note 5 of the basic financial statements.

*Debt administration*

At the end of the fiscal year, the Township had contracts payable outstanding in the amount of \$1,187,000, which represents a decrease of \$63,000, or 5 percent. All debt is backed by the full faith and credit of the Township.

More detailed information about the Township's noncurrent liabilities is presented in Note 6 of the basic financial statements.

***Township of Port Sheldon***  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

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**Economic condition and outlook**

The Township's budget for the next fiscal year projects property taxes, which is the largest single source of revenue, to increase slightly. State revenue sharing is also a significant source of revenue for the Township. While the Township no longer receives statutory state revenue sharing, constitutional state revenue sharing is projected to show a slight increase.

Expenditures are projected to increase in the next fiscal year. The largest single increase is projected in non-motorized pathway construction and maintenance. A new non-motorized pathway is planned with a preliminary cost estimate exceeding \$400,000 for construction. Funds that have been set aside in the previous four years, together with less road construction, make it possible to undertake these projects while maintaining strong fiscal health for the Township.

**Contacting the Township's financial management**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

Howard Baumann, Jr., Township Supervisor  
Township of Port Sheldon  
16201 Port Sheldon Street  
West Olive, Michigan 49460

Phone: (616) 399-6121

## INDEPENDENT AUDITORS' REPORT

**Board of Trustees  
Township of Port Sheldon, Michigan**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely-presented component unit, each major fund, and the aggregate remaining fund information of the Township of Port Sheldon, Michigan, as of March 31, 2007, and for the year then ended, which collectively comprise the Township of Port Sheldon, Michigan's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Township of Port Sheldon, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely-presented component unit, each major fund, and the aggregate remaining fund information of the Township of Port Sheldon, Michigan, as of March 31, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 14 to the financial statements, the Township recorded a prior period adjustment to correct its method of accounting for property tax revenue recognition of the governmental activities and of the General and Fire funds. A prior period adjustment was also recorded to include the Economic Development Corporation as a component unit.

The management's discussion and analysis and budgetary comparison schedules, as listed in the contents, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Siegfried Crandall P.C.*

July 30, 2007

## **BASIC FINANCIAL STATEMENTS**

**Township of Port Sheldon**  
**STATEMENT OF NET ASSETS**  
*March 31, 2007*

|   | <b>Primary government</b>      |                                 |               | <b>Component Unit</b>                   |
|---|--------------------------------|---------------------------------|---------------|---|
|   | <b>Governmental activities</b> | <b>Business-type activities</b> | <b>Totals</b> | <b>Economic Development Corporation</b> |
| <b>ASSETS</b>                                   |                                |                                 |               |   |
| Current assets:                                 |                                |                                 |               |   |
| Cash  | \$ 1,733,273                   | \$ 23,963                       | \$ 1,757,236  | \$ 17,255                               |
| Receivables                                     | 141,308                        | -                               | 141,308       | -                                       |
| Total current assets                            | 1,874,581                      | 23,963                          | 1,898,544     | 17,255                                  |
| Noncurrent assets:                              |                                |                                 |               |   |
| Receivables                                     | 205,123                        | -                               | 205,123       | -                                       |
| Capital assets not being depreciated - land     | 236,443                        | -                               | 236,443       | -                                       |
| Capital assets, net of accumulated depreciation | 3,242,630                      | -                               | 3,242,630     | -                                       |
| Total noncurrent assets                         | 3,684,196                      | -                               | 3,684,196     | -                                       |
| Total assets                                    | 5,558,777                      | 23,963                          | 5,582,740     | 17,255                                  |
| <b>LIABILITIES</b>                              |                                |                                 |               |   |
| Current liabilities:                            |                                |                                 |               |   |
| Payables  | 120,568                        | -                               | 120,568       | -                                       |
| Contracts payable                               | 68,000                         | -                               | 68,000        | -                                       |
| Total current liabilities                       | 188,568                        | -                               | 188,568       | -                                       |
| Noncurrent liabilities - contracts payable      | 1,119,000                      | -                               | 1,119,000     | -                                       |
| Total liabilities                               | 1,307,568                      | -                               | 1,307,568     | -                                       |
| <b>NET ASSETS</b>                               |                                |                                 |               |   |
| Invested in capital assets, net of related debt | 2,292,073                      | -                               | 2,292,073     | -                                       |
| Restricted for:                                 |                                |                                 |               |   |
| Public safety                                   | 213,725                        | -                               | 213,725       | -                                       |
| Debt service                                    | 351,799                        | -                               | 351,799       | -                                       |
| Unrestricted                                    | 1,393,612                      | 23,963                          | 1,417,575     | 17,255                                  |
| Total net assets                                | \$ 4,251,209                   | \$ 23,963                       | \$ 4,275,172  | \$ 17,255                               |

See notes to financial statements

**Township of Port Sheldon**  
**STATEMENT OF ACTIVITIES**  
Year ended March 31, 2007

| Functions/Programs                 | <u>Expenses</u>     | <u>Program revenues</u>     |   |
|------------------------------------|---------------------|-----------------------------|---|
|                                    |                     | <u>Charges for services</u> | <u>Operating grants and contributions</u> |
| Primary government:                |                     |                             |   |
| Governmental activities:           |                     |                             |   |
| Legislative                        | \$ 4,198            | \$ -                        | \$ -                                      |
| General government                 | 398,014             | 25,008                      | -   |
| Public safety                      | 237,769             | 65,850                      | 2,428                                     |
| Public works                       | 145,390             | -                           | 3,921                                     |
| Community and economic development | 68,403              | 7,175                       | -   |
| Culture and recreation             | 61,370              | -                           | -   |
| Interest on long-term debt         | 78,961              | 18,731                      | -   |
| Total governmental activities      | 994,105             | 116,764                     | 6,349                                     |
| Business-type activity - water     | 19,776              | 15,442                      | -   |
| Total primary government           | <u>\$ 1,013,881</u> | <u>\$ 132,206</u>           | <u>\$ 6,349</u>                           |
| Component unit:                    |                     |                             |   |
| Economic Development Corporation   | <u>\$ 250</u>       | <u>\$ -</u>                 | <u>\$ -</u>                               |

General revenues:

Property taxes  
State shared revenue  
Franchise fees  
Interest income

Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending



| <b>Net (expenses) revenues and changes in net assets</b> |                                 |               |                       |
|--|---------------------------------|---------------|-----------------------|
| <b>Primary government</b>                                |                                 |               | <b>Component Unit</b> |
| <b>Governmental activities</b>                           | <b>Business-type activities</b> | <b>Totals</b> |                       |
| \$ (4,198)   |                                 | \$ (4,198)    |                       |
| (373,006)  |                                 | (373,006)     |                       |
| (169,491)  |                                 | (169,491)     |                       |
| (141,469)  |                                 | (141,469)     |                       |
| (61,228)   |                                 | (61,228)      |                       |
| (61,370)   |                                 | (61,370)      |                       |
| (60,230)   |                                 | (60,230)      |                       |
| (870,992)  |                                 | (870,992)     |                       |
| -  | \$ (4,334)                      | (4,334)       |                       |
| (870,992)  | (4,334)                         | (875,326)     |                       |
|  |                                 |               | \$ (250)              |
| 700,387  | -                               | 700,387       | -                     |
| 306,332  | -                               | 306,332       | -                     |
| 24,670   | -                               | 24,670        | -                     |
| 94,897   | 541                             | 95,438        | 524                   |
| 1,126,286  | 541                             | 1,126,827     | 524                   |
| 255,294  | (3,793)                         | 251,501       | 274                   |
| 3,995,915  | 27,756                          | 4,023,671     | 16,981                |
| \$ 4,251,209   | \$ 23,963                       | \$ 4,275,172  | \$ 17,255             |

See notes to the financial statements

**Township of Port Sheldon**  
**BALANCE SHEET - governmental funds**  
 March 31, 2007

|  | <b>Major funds</b>  |                   |                          |                          |
|--|---------------------|-------------------|--------------------------|--------------------------|
|  | <b>General</b>      | <b>Fire</b>       | <b>Sewer District #1</b> | <b>Sewer District #2</b> |
| <b>ASSETS</b>                              |                     |                   |                          |                          |
| Cash                                       | \$ 1,352,438        | \$ 229,960        | \$ 84,099                | \$ 66,776                |
| Receivables                                | 61,862              | 3,765             | 146,413                  | 134,391                  |
| <b>Total assets</b>                        | <b>\$ 1,414,300</b> | <b>\$ 233,725</b> | <b>\$ 230,512</b>        | <b>\$ 201,167</b>        |
| <b>LIABILITIES AND FUND BALANCES</b>       |                     |                   |                          |                          |
| Liabilities:                               |                     |                   |                          |                          |
| Payables                                   | \$ 20,688           | \$ 20,000         | \$ -                     | \$ 79,880                |
| Deferred revenue                           | -                   | -                 | 131,835                  | 121,287                  |
| <b>Total liabilities</b>                   | <b>20,688</b>       | <b>20,000</b>     | <b>131,835</b>           | <b>201,167</b>           |
| Fund balances:                             |                     |                   |                          |                          |
| Reserved for debt service                  | -                   | -                 | 98,677                   | -                        |
| Unreserved, undesignated                   | 1,393,612           | 213,725           | -                        | -                        |
| <b>Total fund balances</b>                 | <b>1,393,612</b>    | <b>213,725</b>    | <b>98,677</b>            | <b>-</b>                 |
| <b>Total liabilities and fund balances</b> | <b>\$ 1,414,300</b> | <b>\$ 233,725</b> | <b>\$ 230,512</b>        | <b>\$ 201,167</b>        |

Total fund balances - total governmental funds

Amounts reported for *governmental activities* in the statement of net assets are different because:

Special assessments receivable are not available to pay for current period expenditures and, therefore, are deferred in the funds.

Capital assets used in *governmental activities* are not financial resources and, therefore, are not reported in the funds.

Long-term liabilities, including contracts payable, are not due and payable in the current period and, therefore, are not reported in the funds

Net assets of *governmental activities* (page 4)

---

***Total  
governmental  
funds***

---

\$ 1,733,273  
346,431

\$ 2,079,704

\$ 120,568  
253,122

373,690

98,677  
1,607,337

1,706,014

\$ 2,079,704

\$ 1,706,014

253,122

3,479,073

(1,187,000)

\$ 4,251,209

See notes to financial statements

**Township of Port Sheldon****STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - governmental funds**

Year ended March 31, 2007

|  | <b>Major funds</b>  |                   |                              |                              |
|--|---------------------|-------------------|------------------------------|------------------------------|
|  | <b>General</b>      | <b>Fire</b>       | <b>Sewer<br/>District #1</b> | <b>Sewer<br/>District #2</b> |
| <b>REVENUES</b>  |                     |                   |                              |                              |
| Property taxes   | \$ 520,634          | \$ 179,753        | \$ -                         | \$ -                         |
| Licenses and permits   | 89,709              | -                 | -                            | -                            |
| State grants   | 310,253             | -                 | -                            | -                            |
| Charges for services   | 23,141              | 2,933             | -                            | -                            |
| Interest and rentals   | 90,178              | 4,788             | 2,785                        | 2,276                        |
| Other  | 4,218               | -                 | 59,755                       | 54,772                       |
| Total revenues   | <u>1,038,133</u>    | <u>187,474</u>    | <u>62,540</u>                | <u>57,048</u>                |
| <b>EXPENDITURES</b>  |                     |                   |                              |                              |
| Legislative  | 4,198               | -                 | -                            | -                            |
| General government   | 354,560             | -                 | -                            | -                            |
| Public safety  | 20,013              | 156,076           | -                            | -                            |
| Public works   | 192,339             | -                 | -                            | -                            |
| Community and economic development                           | 68,403              | -                 | -                            | -                            |
| Culture and recreation                                       | 56,612              | -                 | -                            | -                            |
| Capital outlay   | 29,313              | 2,856             | -                            | -                            |
| Debt service:  |                     |                   |                              |                              |
| Principal  | -                   | -                 | 40,000                       | 23,000                       |
| Interest   | -                   | -                 | 44,913                       | 34,048                       |
| Total expenditures   | <u>725,438</u>      | <u>158,932</u>    | <u>84,913</u>                | <u>57,048</u>                |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER EXPENDITURES</b> | <u>312,695</u>      | <u>28,542</u>     | <u>(22,373)</u>              | <u>-</u>                     |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |                     |                   |                              |                              |
| Transfers in   | -                   | -                 | 45,000                       | -                            |
| Transfers out  | (45,000)            | -                 | -                            | -                            |
| Total other financing<br>sources (uses)                      | <u>(45,000)</u>     | <u>-</u>          | <u>45,000</u>                | <u>-</u>                     |
| <b>NET CHANGES IN FUND BALANCES</b>                          | <u>267,695</u>      | <u>28,542</u>     | <u>22,627</u>                | <u>-</u>                     |
| <b>FUND BALANCES - BEGINNING</b>                             | <u>1,125,917</u>    | <u>185,183</u>    | <u>76,050</u>                | <u>-</u>                     |
| <b>FUND BALANCES - ENDING</b>                                | <u>\$ 1,393,612</u> | <u>\$ 213,725</u> | <u>\$ 98,677</u>             | <u>\$ -</u>                  |

---

***Total  
governmental  
funds***

---

\$ 700,387  
89,709  
310,253  
26,074  
100,027  
118,745

1,345,195

4,198  
354,560  
176,089  
192,339  
68,403  
56,612  
32,169

63,000  
78,961

1,026,331

318,864

45,000  
(45,000)

-

318,864

1,387,150

\$ 1,706,014

*See notes to financial statements*

***Township of Port Sheldon***

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - governmental funds (Continued)**

*Year ended March 31, 2007*

---

Net change in fund balances - total governmental funds (page 7) \$ 318,864

Amounts reported for *governmental activities* in the statement of activities are different because:

Capital assets:

|                            |           |
|----------------------------|-----------|
| Assets acquired            | 114,263   |
| Provision for depreciation | (145,037) |

Repayment of principal on capital debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 63,000

Because some special assessments will not be collected until subsequent periods, they are not considered available revenues and are deferred in the governmental funds.

|   |                 |
|---|-----------------|
| Deduct - decrease in deferred special assessment revenues | <u>(95,796)</u> |
|---|-----------------|

|   |                   |
|---|-------------------|
| Change in net assets of <i>governmental activities</i> (page 5) | <u>\$ 255,294</u> |
|---|-------------------|

**Township of Port Sheldon**  
**STATEMENT OF NET ASSETS - *proprietary fund***  
*March 31, 2007*

---

|                       | <u><b>Water Fund</b></u> |
|-----------------------|--------------------------|
| <b>ASSETS</b>         |                          |
| Current assets - cash | <u>\$ 23,963</u>         |
| <b>NET ASSETS</b>     |                          |
| Unrestricted          | <u>\$ 23,963</u>         |

*See notes to financial statements*

**Township of Port Sheldon**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN**  
**NET ASSETS - *proprietary fund***  
*Year ended March 31, 2007*

---

|                               | <u><b>Water Fund</b></u> |
|-------------------------------|--------------------------|
| <b>OPERATING REVENUES</b>     |                          |
| Charges for services          | \$ 15,442                |
| <b>OPERATING EXPENSES</b>     |                          |
| Operation and maintenance     | <u>19,776</u>            |
| <b>OPERATING LOSS</b>         | (4,334)                  |
| <b>NONOPERATING REVENUE</b>   |                          |
| Interest revenue              | <u>541</u>               |
| <b>CHANGE IN NET ASSETS</b>   | (3,793)                  |
| <b>NET ASSETS - BEGINNING</b> | <u>27,756</u>            |
| <b>NET ASSETS - ENDING</b>    | <u><u>\$ 23,963</u></u>  |

*See notes to financial statements*



**Township of Port Sheldon**  
**STATEMENT OF CASH FLOWS - proprietary fund**  
Year ended March 31, 2007

---

|   | <u><b>Water Fund</b></u> |
|---|--------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                          |
| Receipts from customers and users   | \$ 15,442                |
| Payments to suppliers   | (15,594)                 |
| Payments to employees   | <u>(4,182)</u>           |
| Net cash used in operating activities   | (4,334)                  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                          |
| Interest received   | <u>541</u>               |
| <b>NET DECREASE IN CASH</b>   | (3,793)                  |
| <b>CASH - BEGINNING</b>   | <u>27,756</u>            |
| <b>CASH - ENDING</b>  | <u><u>\$ 23,963</u></u>  |
| <b>Reconciliation of operating income to net cash<br/>used in operating activities:</b> |                          |
| Net cash used in operating activities - operating loss                                  | <u><u>\$ (4,334)</u></u> |

See notes to financial statements

***Township of Port Sheldon***

**STATEMENT OF FIDUCIARY NET ASSETS - *Agency Fund***

*March 31, 2007*

---

**ASSETS**

|      |                  |
|------|------------------|
| Cash | \$ <u>16,456</u> |
|------|------------------|

**LIABILITIES**

|          |                  |
|----------|------------------|
| Payables | \$ <u>16,456</u> |
|----------|------------------|

*See notes to the financial statements*

**Township of Port Sheldon**  
**NOTES TO FINANCIAL STATEMENTS**

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the Township of Port Sheldon, Michigan (the Township), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies.

*a) Reporting entity:*

The accompanying financial statements present the Township and its component unit, an entity for which the Township is considered to be financially accountable. The component unit is reported in separate columns in the government-wide financial statements to emphasize that it is legally separate from the Township.

*Discretely-presented component unit:*

*Economic Development Corporation:*

The component unit's governing body is appointed by the Township Board and its budget must be approved by the Township Board. Separate financial statements for the component unit have not been issued, as management believes that these financial statements, including disclosures, contain complete information so as to constitute a fair presentation of the component unit.

*b) Government-wide and fund financial statements:*

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Township. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental funds and the major enterprise fund are reported as separate columns in the fund financial statements.

*c) Measurement focus, basis of accounting, and financial statement presentation:*

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

**Township of Port Sheldon**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

*c) Measurement focus, basis of accounting, and financial statement presentation (continued):*

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers property tax revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal year are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal year. Only the portion of special assessment receivables due within the current year is considered susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Township.

The Township reports the following major governmental funds:

The General Fund is the Township's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Fire Fund accounts for the use of property tax revenues that are restricted for the financing of the costs of fire protection within the Township.

The Sewer District #1 Fund accounts for the funding and payment of principal and interest on debt associated with the Township's sewer system improvements in 2002.

The Sewer District #2 Fund accounts for the funding and payment of principal and interest on debt associated with the Township's wastewater treatment plant expansion project in 2002.

The Township reports the following major proprietary fund:

The Water Fund accounts for the activities of the Township's water supply system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector standards.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

**Township of Port Sheldon**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

*c) Measurement focus, basis of accounting, and financial statement presentation (continued):*

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

*d) Assets, liabilities, and net assets or equity:*

*i) Bank deposits* - Cash consists of cash on hand, demand deposits, and highly liquid short-term investments with original maturities of three months or less from the date of acquisition.

*ii) Receivables* - Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." No allowance for uncollectible accounts has been recorded as the Township considers all receivables to be fully collectible.

*iii) Capital assets* - Capital assets, which include property, equipment, and infrastructure assets (e.g., water systems, shared sewer and road costs, and pathways), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets, other than infrastructure, are defined by the Township as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets of government activities either retroactively to June 15, 1980, or prospectively. The Township has elected to account for its infrastructure assets prospectively, beginning April 1, 2004.

Capital assets are depreciated using the straight-line method over the following useful lives:

|                            |               |
|----------------------------|---------------|
| Buildings and improvements | 25 - 50 years |
| Equipment                  | 5 - 20 years  |
| Vehicles                   | 20 years      |
| Infrastructure             | 20 years      |

*iv) Fund equity* - In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

**Township of Port Sheldon**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

*d) Assets, liabilities, and net assets or equity (continued):*

*v) Property tax revenue recognition* - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the Township. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Township levy date is December 1, and, accordingly, the total levy is recognized as revenue in the current year.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:**

*Budgetary information* - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the Township's general and special revenue funds. The budget document presents information by fund, function, department, and line-item. The legal level of budgetary control adopted by the governing body is the functional level. All annual appropriations lapse at the end of the fiscal year. The Township experienced no significant budget variances during the fiscal year.

**NOTE 3 - CASH:**

Cash, as presented in the accompanying financial statements, consists of the following:

|          | <u>Governmental<br/>activities</u> | <u>Business-type<br/>activities</u> | <u>Component<br/>unit</u> | <u>Fiduciary</u> | <u>Total</u>        |
|----------|------------------------------------|-------------------------------------|---------------------------|------------------|---------------------|
| Deposits | <u>\$ 1,733,273</u>                | <u>\$ 23,963</u>                    | <u>\$ 17,255</u>          | <u>\$ 16,456</u> | <u>\$ 1,790,947</u> |

*Deposits with financial institutions:*

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) and the Township's investment policy authorize the Township to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Township's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Township will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. As of March 31, 2007, \$1,483,418 of the Township's bank balances of \$1,800,673 was exposed to custodial credit risk because it was uninsured.

The Township believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

**Township of Port Sheldon**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 4 - RECEIVABLES:**

At March 31, 2007, the receivables of the Township's funds were as follows:

|                     | <i><u>Property<br/>taxes</u></i> | <i><u>Accounts</u></i> | <i><u>Inter-<br/>governmental</u></i> | <i><u>Special<br/>assessments</u></i> | <i><u>Totals</u></i> |
|---------------------|----------------------------------|------------------------|---------------------------------------|---------------------------------------|----------------------|
| Governmental funds: |                                  |                        |                                       |                                       |                      |
| General             | \$ 11,568                        | \$ -                   | \$ 50,294                             | \$ -                                  | \$ 61,862            |
| Fire                | 3,765                            | -                      | -                                     | -                                     | 3,765                |
| Sewer District #1   | -                                | 14,578                 | -                                     | 131,835                               | 146,413              |
| Sewer District #2   | -                                | 13,104                 | -                                     | 121,287                               | 134,391              |
| Totals              | <u>\$ 15,333</u>                 | <u>\$ 27,682</u>       | <u>\$ 50,294</u>                      | <u>\$ 253,122</u>                     | <u>\$346,431</u>     |
| Noncurrent portion  | <u>\$ -</u>                      | <u>\$ -</u>            | <u>\$ -</u>                           | <u>\$ 205,123</u>                     | <u>\$205,123</u>     |

**Township of Port Sheldon**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 5 - CAPITAL ASSETS:**

Capital asset activity for the year ended March 31, 2007, was as follows:

|  | <u>Beginning<br/>balance</u> | <u>Increases</u>   | <u>Decreases</u> | <u>Ending<br/>balance</u> |
|--|------------------------------|--------------------|------------------|---------------------------|
| Governmental activities:                           |                              |                    |                  |                           |
| Capital assets not being depreciated - land        | \$ 236,443                   | \$ -               | \$ -             | \$ 236,443                |
| Capital assets being depreciated:                  |                              |                    |                  |                           |
| Buildings and improvements                         | 1,510,359                    | 20,857             | -                | 1,531,216                 |
| Equipment  | 373,426                      | 2,995              | -                | 376,421                   |
| Vehicles   | 678,090                      | -                  | -                | 678,090                   |
| Pathways   | 23,221                       | -                  | -                | 23,221                    |
| Shared road costs                                  | 93,756                       | 90,411             | -                | 184,167                   |
| Shared sewer costs                                 | 1,495,000                    | -                  | -                | 1,495,000                 |
| Subtotal   | <u>4,173,852</u>             | <u>114,263</u>     | <u>-</u>         | <u>4,288,115</u>          |
| Less accumulated depreciation for:                 |                              |                    |                  |                           |
| Buildings and improvements                         | (375,384)                    | (43,109)           | -                | (418,493)                 |
| Equipment  | (177,577)                    | (25,261)           | -                | (202,838)                 |
| Vehicles   | (234,389)                    | (33,705)           | -                | (268,094)                 |
| Pathways   | (387)                        | (1,676)            | -                | (2,063)                   |
| Shared road costs                                  | (586)                        | (3,911)            | -                | (4,497)                   |
| Shared sewer costs                                 | <u>(112,125)</u>             | <u>(37,375)</u>    | <u>-</u>         | <u>(149,500)</u>          |
| Subtotal   | <u>(900,448)</u>             | <u>(145,037)</u>   | <u>-</u>         | <u>(1,045,485)</u>        |
| Total capital assets being depreciated, net        | <u>3,273,404</u>             | <u>(30,774)</u>    | <u>-</u>         | <u>3,242,630</u>          |
| Governmental activities capital assets, net        | <u>\$ 3,509,847</u>          | <u>\$ (30,774)</u> | <u>\$ -</u>      | <u>\$ 3,479,073</u>       |
| Business-type activities:                          |                              |                    |                  |                           |
| Capital assets being depreciated - water system    | \$ 107,671                   | \$ -               | \$ -             | \$ 107,671                |
| Less accumulated depreciation                      | <u>(107,671)</u>             | <u>-</u>           | <u>-</u>         | <u>(107,671)</u>          |
| Total business-type activities capital assets, net | <u>\$ -</u>                  | <u>\$ -</u>        | <u>\$ -</u>      | <u>\$ -</u>               |



**Township of Port Sheldon**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 5 - CAPITAL ASSETS (Continued):**

Depreciation expense was charged to governmental activities as follows:

|                        |            |
|------------------------|------------|
| General government     | \$ 42,266  |
| Public safety          | 58,824     |
| Public works           | 43,462     |
| Culture and recreation | <u>485</u> |

Total governmental activities \$ 145,037

**NOTE 6 - NONCURRENT LIABILITIES:**

Noncurrent liabilities at March 31, 2007, consist of the following issues:

*Governmental activities:*

\$1,150,000 2002 Ottawa County sewage disposal contract payable (Port Sheldon sewer improvements) - payable in annual installments ranging from \$15,000 to \$90,000, plus interest at 3.0% to 5.0%; final payment due May 2022 \$ 980,000

\$345,000 2002 Ottawa County sewage disposal contract payable (treatment plant expansion) - payable in annual installments of \$23,000, plus interest at 2.50% to 4.55%; final payment due May 2017 207,000

Total governmental activities \$1,187,000

Noncurrent liability activity for the year ended March 31, 2007, was as follows:

|                                 | <i>Beginning<br/>balance</i> | <i>Additions</i> | <i>Reductions</i>  | <i>Ending<br/>balance</i> | <i>Amounts<br/>due within<br/>one year</i> |
|---------------------------------|------------------------------|------------------|--------------------|---------------------------|--|
| <i>Governmental activities:</i> |                              |                  |                    |                           |  |
| 2002 contract payable #1        | \$ 1,020,000                 | \$ -             | \$ (40,000)        | \$ 980,000                | \$ 45,000                                  |
| 2002 contract payable #2        | <u>230,000</u>               | <u>-</u>         | <u>(23,000)</u>    | <u>207,000</u>            | <u>23,000</u>                              |
| Total governmental activities   | <u>\$ 1,250,000</u>          | <u>\$ -</u>      | <u>\$ (63,000)</u> | <u>\$ 1,187,000</u>       | <u>\$ 68,000</u>                           |

**Township of Port Sheldon**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 6 - NONCURRENT LIABILITIES (Continued):**

At March 31, 2007, debt service requirements were as follows:

| <u>Year ended</u><br><u>March 31,</u> | <u>Governmental activities</u> |                   |
|---------------------------------------|--------------------------------|-------------------|
|                                       | <u>Principal</u>               | <u>Interest</u>   |
| 2008                                  | 68,000                         | 55,015            |
| 2009                                  | 68,000                         | 52,149            |
| 2010                                  | 73,000                         | 49,213            |
| 2011                                  | 73,000                         | 45,996            |
| 2012 - 2016                           | 415,000                        | 177,111           |
| 2017 - 2021                           | 400,000                        | 82,760            |
| 2022 - 2023                           | <u>90,000</u>                  | <u>4,500</u>      |
| Totals                                | <u>\$ 1,187,000</u>            | <u>\$ 466,744</u> |

All debt is secured by the full faith and credit of the Township.

**NOTE 7 - PAYABLES:**

At March 31, 2007, the payables of the Township's funds were as follows:

|                          | <u>Accounts</u>  | <u>Payroll</u>   | <u>Inter-<br/>governmental</u> | <u>Totals</u>     |
|--------------------------|------------------|------------------|--------------------------------|-------------------|
| Governmental funds:      |                  |                  |                                |                   |
| General                  | \$ 20,688        | \$ -             | \$ -                           | \$ 20,688         |
| Fire                     | -                | 20,000           | -                              | 20,000            |
| Sewer District #2        | <u>-</u>         | <u>-</u>         | <u>79,880</u>                  | <u>79,880</u>     |
| Total governmental funds | <u>\$ 20,688</u> | <u>\$ 20,000</u> | <u>\$ 79,880</u>               | <u>\$ 120,568</u> |

**NOTE 8 - DEFERRED REVENUE:**

Governmental funds report deferred revenues in connection with revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred revenues are as follows:

| <u>Fund</u>       | <u>Assessments<br/>unavailable</u> |
|-------------------|------------------------------------|
| Sewer District #1 | \$ 131,835                         |
| Sewer District #2 | <u>121,287</u>                     |
| Totals            | <u>\$ 253,122</u>                  |

**Township of Port Sheldon**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 9 - DEFINED CONTRIBUTION PENSION PLAN:**

The Township provides pension benefits for substantially all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Michigan statutes assign the authority to establish and amend benefit provisions to the Township Board of Trustees. Employees are eligible to participate from the date of employment. The Township contributes 15% of each qualified employee's base salary to the plan and the contributions are fully vested immediately. The Township is not a trustee of the plan, nor is the Township responsible for investment management of plan assets.

The Township made required contributions of \$23,187 during the fiscal year ended March 31, 2007.

**NOTE 10 - CLAIMS ARISING FROM RISKS OF LOSS:**

The Township is exposed to various risks of loss to general liability, property and casualty, and workers' compensation. The risks of loss arising from general liability up to \$2,000,000, building contents, workers' compensation, and casualty are managed through purchased commercial insurance. Claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**NOTE 11 - CONSTRUCTION CODE ACT:**

A summary of construction code enforcement transactions for the year ended March 31, 2007, follows:

|                                      |                 |
|--------------------------------------|-----------------|
| Revenues                             | \$ 62,202       |
| Expenses                             | <u>(62,273)</u> |
| Deficiency of revenues over expenses | <u>\$ (71)</u>  |

**NOTE 12 - INTERFUND TRANSFERS:**

A summary of interfund transfers for the year ended March 31, 2007, is as follows:

| <u>Fund</u>       | <u>Transfer in</u> | <u>Fund</u> | <u>Transfer out</u> |
|-------------------|--------------------|-------------|---------------------|
| Sewer District #1 | <u>\$ 45,000</u>   | General     | <u>\$ 45,000</u>    |

The transfer to the Sewer District #1 Fund, a debt service fund, represents unrestricted revenues collected in the General Fund that were used to pay debt service costs in accordance with budgetary requirements.

**NOTE 13 - ECONOMIC DEPENDENCY:**

The Township received approximately 67% of its property tax revenue from one taxpayer.

**Township of Port Sheldon**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 14 - PRIOR PERIOD ADJUSTMENTS:**

Prior period adjustments have been recorded in 2006 that resulted in a restatement of net assets. Net assets as of April 1, 2006, included in the government-wide financial statements, represent restated balances as presented below. The following schedule identifies the nature and amount of the adjustments recorded.

|   | <i>Net assets</i>                     |                              |
|---|---------------------------------------|------------------------------|
|   | <u><i>Governmental activities</i></u> | <u><i>Component unit</i></u> |
| Beginning of year, as previously reported     | \$ 3,333,134                          | \$ -                         |
| Prior period adjustments:                     |                                       |                              |
| Overstatement of deferred revenue             | 662,781                               | -                            |
| Inclusion of Economic Development Corporation | <u>-</u>                              | <u>16,981</u>                |
| Beginning of year, as restated                | <u>\$ 3,995,915</u>                   | <u>\$ 16,981</u>             |

Prior period adjustments have been recorded in 2006 that resulted in restatements of fund equity. Fund equity as of April 1, 2006, included in the fund statements, represents restated balances as presented below. The following schedule identifies the nature and amount of the adjustments recorded.

|   | <i>Fund balance</i>   |                    |
|---|-----------------------|--------------------|
|   | <u><i>General</i></u> | <u><i>Fire</i></u> |
| Beginning of year, as previously reported | \$ 634,123            | \$ 14,196          |
| Prior period adjustment:                  |                       |                    |
| Overstatement of deferred revenue         | <u>491,794</u>        | <u>170,987</u>     |
| Beginning of year, as restated            | <u>\$ 1,125,917</u>   | <u>\$ 185,183</u>  |

## **REQUIRED SUPPLEMENTARY INFORMATION**

**Township of Port Sheldon**  
**BUDGETARY COMPARISON SCHEDULE - General Fund**  
Year ended March 31, 2007

|                                   | <u>Original<br/>budget</u> | <u>Amended<br/>budget</u> | <u>Actual</u>    | <u>Variance<br/>favorable<br/>(unfavorable)</u> |
|-----------------------------------|----------------------------|---------------------------|------------------|---|
| <b>REVENUES</b>                   |                            |                           |                  |   |
| Property taxes                    | \$ 497,424                 | \$ 497,424                | \$ 520,634       | \$ 23,210                                       |
| Licenses and permits              | 85,459                     | 85,459                    | 89,709           | 4,250   |
| State grants                      | 318,000                    | 318,000                   | 310,253          | (7,747)   |
| Charges for services              | 25,584                     | 25,584                    | 23,141           | (2,443)   |
| Interest and rentals              | 54,600                     | 54,600                    | 90,178           | 35,578  |
| Other                             | 9,584                      | 9,584                     | 4,218            | (5,366)   |
| Total revenues                    | <u>990,651</u>             | <u>990,651</u>            | <u>1,038,133</u> | <u>47,482</u>                                   |
| <b>EXPENDITURES</b>               |                            |                           |                  |   |
| Legislative                       | <u>5,169</u>               | <u>5,169</u>              | <u>4,198</u>     | <u>971</u>                                      |
| General government:               |                            |                           |                  |   |
| Supervisor                        | 59,085                     | 59,085                    | 58,027           | 1,058   |
| Elections                         | 5,000                      | 5,000                     | 3,715            | 1,285   |
| Assessor                          | 74,650                     | 74,650                    | 36,709           | 37,941  |
| Clerk                             | 47,074                     | 47,074                    | 40,956           | 6,118   |
| Treasurer                         | 34,134                     | 34,134                    | 32,682           | 1,452   |
| Board of review                   | 1,350                      | 1,350                     | 1,050            | 300   |
| General administration            | 231,537                    | 234,537                   | 140,133          | 94,404  |
| Hall and grounds                  | 40,491                     | 40,491                    | 35,303           | 5,188   |
| Cemetery                          | 8,500                      | 8,500                     | 5,985            | 2,515   |
| Total general government          | <u>501,821</u>             | <u>504,821</u>            | <u>354,560</u>   | <u>150,261</u>                                  |
| Public safety:                    |                            |                           |                  |   |
| Law enforcement                   | 2,525                      | 2,525                     | 1,857            | 668   |
| Construction code inspections     | <u>28,500</u>              | <u>28,500</u>             | <u>18,156</u>    | <u>10,344</u>                                   |
| Total public safety               | <u>31,025</u>              | <u>31,025</u>             | <u>20,013</u>    | <u>11,012</u>                                   |
| Public works:                     |                            |                           |                  |   |
| Pathways                          | 540,000                    | 540,000                   | 108,655          | 431,345   |
| Road construction and maintenance | 57,965                     | 57,965                    | 5,879            | 52,086  |
| Sanitation                        | 75,000                     | 75,000                    | 60,995           | 14,005  |

**Township of Port Sheldon****BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)**

Year ended March 31, 2007

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|  | <u>Original<br/>budget</u> | <u>Amended<br/>budget</u> | <u>Actual</u>       | <u>Variance<br/>favorable<br/>(unfavorable)</u> |
|--|----------------------------|---------------------------|---------------------|---|
| <b>EXPENDITURES (Continued)</b>                                  |                            |                           |                     |   |
| Public works (continued):  |                            |                           |                     |   |
| Street lighting  | \$ 15,000                  | \$ 15,000                 | \$ 14,281           | \$ 719  |
| Drains   | 2,000                      | 2,000                     | 2,208               | (208)   |
| Other  | 500                        | 500                       | 321                 | 179   |
| Total public works   | <u>690,465</u>             | <u>690,465</u>            | <u>192,339</u>      | <u>498,126</u>                                  |
| Community and economic development -<br>planning and zoning      | <u>79,703</u>              | <u>76,703</u>             | <u>68,403</u>       | <u>8,300</u>                                    |
| Culture and recreation - parks and recreation                    | <u>65,304</u>              | <u>65,304</u>             | <u>56,612</u>       | <u>8,692</u>                                    |
| Capital outlay   | <u>175,000</u>             | <u>175,000</u>            | <u>29,313</u>       | <u>145,687</u>                                  |
| Total expenditures   | <u>1,548,487</u>           | <u>1,548,487</u>          | <u>725,438</u>      | <u>823,049</u>                                  |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>    OVER EXPENDITURES</b> | (557,836)                  | (557,836)                 | 312,695             | 870,531   |
| <b>OTHER FINANCING USES</b>                                      |                            |                           |                     |   |
| Transfer out - Sewer District #1 Fund                            | <u>(45,500)</u>            | <u>(45,500)</u>           | <u>(45,000)</u>     | <u>500</u>                                      |
| <b>NET CHANGES IN FUND BALANCES</b>                              | (603,336)                  | (603,336)                 | 267,695             | 871,031   |
| <b>FUND BALANCES - BEGINNING</b>                                 | <u>1,125,917</u>           | <u>1,125,917</u>          | <u>1,125,917</u>    | <u>-</u>  |
| <b>FUND BALANCES - ENDING</b>                                    | <u>\$ 522,581</u>          | <u>\$ 522,581</u>         | <u>\$ 1,393,612</u> | <u>\$ 871,031</u>                               |

**Township of Port Sheldon**  
**BUDGETARY COMPARISON SCHEDULE - Fire Fund**  
Year ended March 31, 2007

|  | <u>Original<br/>budget</u> | <u>Amended<br/>budget</u> | <u>Actual</u>     | <u>Variance<br/>favorable<br/>(unfavorable)</u> |
|--|----------------------------|---------------------------|-------------------|---|
| <b>REVENUES</b>  |                            |                           |                   |   |
| Property taxes   | \$ 171,053                 | \$ 171,053                | \$ 179,753        | \$ 8,700  |
| Charges for services   | -                          | 2,933                     | 2,933             | -   |
| Interest   | <u>4,000</u>               | <u>4,000</u>              | <u>4,788</u>      | <u>788</u>                                      |
| Total revenues   | <u>175,053</u>             | <u>177,986</u>            | <u>187,474</u>    | <u>9,488</u>                                    |
| <b>EXPENDITURES</b>  |                            |                           |                   |   |
| Public safety  | 179,587                    | 182,520                   | 156,076           | 26,444  |
| Capital outlay   | <u>7,000</u>               | <u>7,000</u>              | <u>2,856</u>      | <u>4,144</u>                                    |
| Total expenditures   | <u>186,587</u>             | <u>189,520</u>            | <u>158,932</u>    | <u>30,588</u>                                   |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER EXPENDITURES</b> | (11,534)                   | (11,534)                  | 28,542            | 40,076  |
| <b>FUND BALANCES - BEGINNING</b>                             | <u>185,183</u>             | <u>185,183</u>            | <u>185,183</u>    | <u>-</u>  |
| <b>FUND BALANCES - ENDING</b>                                | <u>\$ 173,649</u>          | <u>\$ 173,649</u>         | <u>\$ 213,725</u> | <u>\$ 40,076</u>                                |



**Members of the Township Board  
Township of Port Sheldon, Michigan**

In planning and performing our audit of the financial statements of the Township of Port Sheldon as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Township of Port Sheldon's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency is a material weakness.

- The Township does not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to record revenue and expenditure accruals, and changes in capital assets, and to present required financial statement disclosures.

This communication is intended solely for the information and use of the Board of Trustees of the Township of Port Sheldon and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Siegfried Crandall P.C.*

July 30, 2007